

INTRODUCTION

The County Executive Office (CEO) is pleased to provide you with the FY 2007-08 Recommended Budget. The CEO budget recommendations to the Board of Supervisors reflect Orange County's disciplined approach to fiscal management and are consistent with the County's Strategic Financial Planning process. The budget recommendations will be presented at a public budget workshop on May 24, 2007 and discussed at a Public Budget Hearing scheduled to begin on June 12, 2007.

The FY 2007-08 Recommended Budget reflects the impacts of the local, State and National economies, limited revenue growth and the rising cost of doing business. The County's local economy, although impacted by external factors, continues to be strong and diverse. As of February, the FY 2007-08 State Budget would have a General Fund reserve of \$2.1 billion and no operating deficit compared to a \$4 billion current year operating deficit. The County's budget proposal reflects the impacts of the Governor's January budget and will be updated if necessary based on the Governor's May revise.

This introduction contains a guide to reading the budget document, a brief description of the County's form of government, supervisorial districts, mission statement and the County's strategic planning initiative. This introduction also reviews the State budget and economic factors influencing the County budget, provides summary budget information, and budget highlights in various program areas of the budget.

I. A CITIZEN'S GUIDE TO READING THE BUDGET DOCUMENT

This document includes information that provides readers with a greater understanding of each department's mission, organizational structure, and performance results as a narrative context for the budget amounts. The introduction section of Volume I contains several charts and tables that provide an overview of issues affecting the budget, sources and uses of funds and budgeted positions. Following the introduction are sections that present each department and fund in the County's seven program areas listed below:

1. Public Protection

2. Community Services
3. Infrastructure and Environmental Resources
4. General Government Services
5. Capital Improvements
6. Debt Service
7. Insurance, Reserves and Miscellaneous

The presentation for each department within each program area includes:

An **Operational Summary** including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome Indicators (Performance Measures)
- Key Accomplishments of the current year

An **Organizational Summary** including:

- Organization Chart
- Description of each major activity
- Ten-year staffing trend chart with highlights of staffing changes

A FY 2007-08 **Budget Summary** including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget
- Requested budget augmentations and related performance results
- Recap of the department base budget
- Highlights of key budget trends
- A matrix that shows all of the budget units under the department's control

Volume II contains additional budget detail. Readers looking for more detailed budget information for a specific department can use the Index at the end of Volume II. Departments are listed in alphabetical order with the page number of that department's budget information.

In addition to the departmental information available in the County budget book, all County departments prepare annual business plans. These plans serve two key purposes:

- Communicate the value that the department brings to the community
- Report how the department is doing using outcome indicators

Business plans are published separately by the departments and are available on the County's website <http://www.ocgov.com/ceobusiness.asp>. A business plan sets forth long-term goals, discusses operational and budget challenges, identifies strategies for overcoming the challenges and making progress on those goals during the coming year and identifies how success will be measured by using outcome indicators (performance measures). Occasionally, key outcome indicators change because of an ongoing review to ensure consistency with the departmental mission and goals. It is the intent that outcome indicator changes will be minimized over time so the reader of the business plans and this budget document can consistently observe trends and progress in meeting objectives.

II. ORGANIZATIONAL OVERVIEW

Orange County's FY 2007-08 Recommended Budget presents the County's financial capacity and priorities in providing public safety and health, social services, environmental, and regional planning services for its residents. The County provides the public with a comprehensive array of public services through its departments and through comprehensive community partnerships with public, private and non-profit agencies.

FORM OF GOVERNMENT

The County is a charter County as a result of the March 5, 2002 voter approval of Measure V that provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law County, mid-term vacancies would otherwise be filled by gubernatorial appointment. In all other respects, the County is like a general law County. A five-member Board of Supervisors, each

of who serve four-year terms and annually elect a Chairman and Vice Chairman, governs the County. The Supervisors represent districts that are each equal in population. The members of the Board of Supervisors by district are as follows:

CHRIS NORBY, CHAIRMAN, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

JOHN M. W. MOORLACH, VICE CHAIRMAN, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley, Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton, and portions of Garden Grove.

JANET NGUYEN, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

BILL CAMPBELL, from the Third District, representing the communities of Brea, Irvine, Orange, Villa Park, Yorba Linda, Tustin and portions of Anaheim.

PATRICIA C. BATES, from the Fifth District, representing the communities of Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, San Clemente, San Juan Capistrano and Rancho Santa Margarita.

STRATEGIC PLANNING INITIATIVE

In December 2006, as part of its Strategic Planning Initiative, the County adopted a new mission statement to define the spirit, purpose and focus of Orange County government. The County's **mission statement** reads:

Making Orange County a safe, healthy and fulfilling place to live, work and play, today and for generations to come, by providing outstanding, cost-effective regional public services.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting this mission statement is a set of vision statements for business and cultural values as shown in the following table (**Table A**):

Table A

VISION STATEMENT FOR BUSINESS VALUES	VISION STATEMENT FOR CULTURAL VALUES
We strive to be a high quality model governmental agency that delivers services to the community in ways that demonstrate:	We commit to creating a positive, service-oriented culture which:
<ul style="list-style-type: none"> ■ Excellence - Provide responsive and timely services ■ Leadership - leverage available resources as we partner with regional business and other governmental agencies ■ Stewardship - seek cost-effective and effective methods ■ Innovation - Use leading-edge, innovative technology 	<ul style="list-style-type: none"> ■ Attracts and retains the best and the brightest ■ Fosters a spirit of collaboration and partnership internally and externally ■ Supports creativity, innovation, and responsiveness ■ Demonstrates a “can-do” attitude in accomplishing timely results ■ Creates a fun, fulfilling and rewarding working environment ■ Models the following core values in everything we do: <ul style="list-style-type: none"> ● Respect ● Integrity ● Caring ● Trust ● Excellence

III. ECONOMIC OUTLOOK FOR FY 2007-08

Key factors that influence the local Orange County economy include the unemployment rate, job growth, inflation, housing prices, incomes and taxable sales. Two indicators of the condition of the Orange County economy are: how well the local economy performs relative to surrounding counties, the State and the Nation (i.e., External Indicators); and how well the local economy performs relative to its own historical trends (i.e., Internal Indicators). In terms of the external indicators, Orange County's economy routinely outperforms local surrounding counties, the State, and National economies (in annual percentage growth), and, in fact, ranks higher (in absolute dollars) than the economies of the majority of the countries in the world. External indicators show that despite the current sluggishness of the local economy, conditions for the most part remain relatively favorable when compared to surrounding counties, the State and the Nation. In terms of internal (historical) trends, current and

projected indicators show that growth of the Orange County economy will continue to be slow in 2007. This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

Orange County's **unemployment rate** continues to be one of the lowest in the State, and is below that of all surrounding Southern California counties, the State of California and the nation. In March 2007, unemployment rates for the U.S., California and Orange County were recorded at 4.4%, 4.8%, and 3.4% respectively. In March 2007 rates for surrounding counties in Southern California were 4.9% for Los Angeles County, 5.1% for Riverside County, 4.7% for San Bernardino County and 4.0% for San Diego County. Thus far, Orange County's unemployment rates for calendar year 2007 are favorable at 3.6% in January, 3.5% in February and 3.4% in March. Similarly, the two-year point-in-time unemployment rates in Orange County are 3.4% for March 2006 and 3.4% for March 2007. In effect, in terms of unemployment rates, the County of Orange profile remains favorable.

According to Chapman University, Orange County's **job growth** is expected to increase slightly by 1.0% in 2007 and result in approximately 15,263 more jobs relative to 2006. This is comparable to the percentage growth rate at the State of California, 0.9%, and 1.0% at the national level during the same time period. Historically, job growth in Orange County has been sporadic since the early 2000's. From 2000 to 2007 job growth in Orange County was 3.2% in 2000, 1.8% in 2001, -0.7% in 2002, 1.8% in 2003, 1.9% in 2004, 2.3% in 2005, 1.4 in 2006, and is projected to be 1.0% in 2007.

Inflation, as measured by the Consumer Price Index (CPI), is expected to be comparable to the CPI at the State and National levels in 2007. Chapman University projects the CPI at the national level to increase by 3.0%, in California by 3.2%, and in Orange County by 3.3% in 2007. Comparisons of Orange County's historical CPI trends from 2000 to 2007 are sporadic at 3.3%, 3.4%, 2.8%, 2.6%, 3.3%, 4.5%, 4.6% and 3.3%, respectively.

According to DataQuick Information Systems, in March 2007 the **median price** for new and existing homes in Orange County increased by only 0.6% (relative to March 2006), and reached \$629,000. This compares to increases of 6.3% for Los Angeles County, -4.9% for San Diego County, 0.2% for Riverside County, and 1.1% for San Bernardino County. This indicates that annual housing appreciation in March in Orange County slowed considerably in 2007 relative to 2006 when homes increased by 10.3% relative to March of 2005. Still, Orange County continues to exceed all surrounding Counties by a substantial amount; \$629,000 for Orange County, \$490,000 for San Diego County, \$540,000 for Los Angeles County, \$420,000 for Riverside County and \$369,000 for San Bernardino County. Historically, year-to-year home sale price increases in Orange County for the month of March exclusively are 12.1% for March 2000, 12.3% for March 2001, 13.7% for March 2002, 18.7% for March 2003, 23.1% for March 2004, 16.5% for March 2005, 10.3% for March 2006 and 0.6% for March 2007. For the future, Chapman University is projecting that while housing appreciation will be minimal, housing affordability rate (compared to other parts of the country) will continue to remain low.

Median family **incomes** were adjusted ("Re-benched") in 2003 by the U.S. Department of Housing and Urban Development (HUD) to comply with actual data collected during the 2000 Census. Orange County's adjusted (HUD) median family income is expected to be \$78,700 in 2007 (up slightly from \$78,300 in 2006). This compares to \$56,500 for Los Angeles County, \$69,400 for San Diego County, \$59,200 for Riverside County, \$65,000 for the State of California and \$59,000 for the U.S during the same time period.

Taxable sales in Orange County are forecast by Chapman University to increase by 5.0% in 2007. This compares to an increase of 4.7% for the State of California. Taxable sales in Orange County increased by 10.1% in 2000, by 0.3% in 2001, by 0.6% in 2002, by 5.9% in 2003, by 8.8% in 2004, by 7.3% in 2005, by 6.8% in 2006 and are expected to increase by 5.0% in 2007.

In summary, economic growth in Orange County continues to slow relative to internal historical trends. However, when compared to surrounding counties, the State and the Nation, to local economy still looks relatively favorable. Projected trends suggest that the local economy will grow at a slow but steady pace into the foreseeable future.

STATE LEGISLATION AND BUDGET

The Governor released the FY 2007-08 State Budget Proposal on January 10, 2007. The total State budget is \$131 billion including General Fund expenditures of \$103.1 billion, up 1%. For the general fund, increases in spending on Education, Medi-Cal, and Youth & Adult Corrections would be offset by reductions in CalWORKs and Transportation. General fund revenues are \$101.3 billion, up 7%. The estimated State operating deficit is \$4 billion in current year; \$0 in the budget year. The Governor's budget includes a General Fund reserve of \$2.1 billion.

On January 12, 2007 the State Legislative Analyst's Office (LAO) released an overview of the Governor's budget proposal and concluded that the Governor's budget balancing strategy relies on optimistic revenue and expenditure assumptions, few program expansions, a major redirection of transportation funds, significant reductions in social services and would end the year with a \$726 million deficit. The LAO indicated that some of the key proposals in the State budget raise serious policy and legal issues and that it would be important for the Legislature develop a more realistic budget.

Total County Budget Impact

Departments provided impact assessments on the State budget proposal. The cumulative estimated impact on the County budget for health care, social services and the Road Fund is:

- 29 new positions
- \$30 million gross funding increase
- \$5.3 million Net County Cost increase (\$4 million one-time)

Specific program impacts of the Governor's January State budget are listed below. Amounts quoted are State-wide unless otherwise noted.

PUBLIC SAFETY

- Provides \$50 million in local assistance grants to support adult probation supervision services for the 18-25 age group. This would likely require additional positions in the County Probation Department.
- Includes \$2 million in Child Welfare Services for the County Probation Department System Improvement Plan.
- Allocates \$122.8 million to the Comprehensive Sex Offender Management Plan.
- Corrections reform (Assembly Bill 900) was signed by the Governor on May 3, 2007. It provides \$7.65 billion in bond and other funds for a two-phase plan to build 53,000 new jail beds including 13,000 County jail beds and 16,000 re-entry beds that would be placed in local communities. In addition \$50 million would be designated for rehabilitation, drug treatment and vocation education programs.

HEALTH & SOCIAL SERVICES

- AB3632 (mental health services to special education students): The second half of FY 2006-07 costs will be funded. Funding for FY 2007-08 costs is expected to be included in FY 2008-09. This would create a one-time Net County Cost of \$4 million.
- Medi-Cal is funded with an increase of \$2.3 billion reflecting increases in caseload and cost per eligible person. This could result in an additional \$3.1 million funds for Orange County and 25 new positions.
- Healthy Families Program funding increased 8.9% due to projected increase in enrollment.

- Proposition 36 (Substance Abuse & Crime Prevention Act--SACPA) funding is reduced by \$60 million partially offset by an increase of \$35 million in the related Substance Abuse Offender Treatment Program (OTP). The OTP requires an 11% County match and SACPA does not.
- Early and Periodic Screening, Diagnosis, and Treatment funding is increased based on cost and caseload increases.
- Mental Health Services Act (Prop. 63) funding is expected to increase by \$495.7 million.
- Realignment revenues are expected to grow by 4.8%. This is consistent with the County's Strategic Financial Plan assumption.
- CalWORKs funding is maintained for current level of service and administration. Program changes are proposed to save nearly \$450 million including suspension of the July 1, 2007 COLA, increases sanctions on families that fail to comply with work requirements and no inflationary adjustments for County administration.
- CalWORKs Child Care would receive an \$88.3 million increase based on estimated caseload growth.
- Adult Protective Services contains increased cost of doing business or caseload growth funding.
- Child Welfare Services funding for Orange County would increase by \$3.2 million (\$896,000 Net County Cost) and require additional staff.
- Food Stamps funding for Orange County would increase due to caseload growth by \$1.1 million (\$165,000 Net County Cost) requiring nine additional positions.
- State participation in In-Home Supportive Services (IHSS) wages and benefits would be frozen at the January 10, 2007 level. A subsequent senate subcommittee rejected this proposal. IHSS administration funding in Orange County would increase 3.2% or \$145,000. Orange County caseloads are estimated to increase by 7.9%, faster than the State-wide estimate of 5.4%.
- Child Support Services:
 - The State will backfill the loss of federal matching incentives with \$23 million in General Funds to avert a \$67.6 million reduction to the program.
 - The State proposes level funding for local program expenditures. This may affect service levels as the increased cost of doing business is unfunded.

- Provides \$20 million in federal funds to be matched by \$10 million in County funds to support local staff and services.
- The Governor's Health Care Reform proposal is not reflected in the budget proposal. The proposal could give counties a new responsibility of providing or coordinating health care for the estimated 750,000 undocumented medically indigent adults State-wide.

INFRASTRUCTURE & ENVIRONMENTAL RESOURCES

- Transportation funding (Propositions 42 and 1B): Cities and Counties will receive any Proposition 42 funding for FY 2007-08 due to the additional funds received in earlier years. Proposition 42 funding should resume in FY 2008-09. Offsetting this is \$300 million for counties local streets and roads in FY 2007-08 of which Orange County is allocated nearly \$18.5 million.
- Propositions 1-E (Disaster Preparedness and Flood Prevention Act) and Proposition 84 (Water Quality, Safety and Supply, Flood Control, Natural Resources Protection, Park Improvements) Bonds were approved by the voters in November 2006 to provide funding for the State's Flood subvention reimbursement program. Orange County received \$15.4 million in FY 2006-07 and is expected to receive \$15.5 million in FY 2007-08 from State subvention reimbursement for Santa Ana River Mainstem Project. As of June 30, 2007, the amount of unpaid claims expected to be \$65.3 million.

GENERAL GOVERNMENT

- Past claims were scheduled to be paid over a 15 year period. Since two years worth of SB-90 mandated cost reimbursements were paid this year, no payments will be made in FY 2007-08.
- The Property Tax Administration grant continues to be suspended.

The May revision of the State budget is scheduled for release on May 14, 2007 and could result in modifications to the recommendations in the County budget. These will be discussed at the County budget hearings or in the First Quarter Budget Report. The CEO will continue to monitor the State budget process as the Governor and the Legislature work together to finalize the State budget. Further changes that affect the County budget will be incorporated as they become known.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

The County budget includes a wide variety of funding sources. The budget recommendations are based on the following revenue assumptions:

- State and Federal funding sources are estimated by departments based on established funding allocation formulas and caseload projections and the latest State budget information.
- Total property taxes are projected to increase by 2.9%. This is slower growth based on anticipated declines in unsecured and supplemental property taxes as well as in the property transfer tax.
- Total sales and other taxes to the General Fund are projected to increase by 2.5% based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization.
- Vehicle license fees are projected to decline by 1.6% based on State projections, California State University Fullerton forecasts and trend data.
- Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to increase 4.3% from prior year budget.
- The one-half cent Public Safety Sales Tax (Proposition 172) funds are allocated 80% to the Sheriff's Department and 20% to the District Attorney by Board policy. The amount for FY 2007-08 is projected to be 2.5% greater than the prior fiscal year.
- The interest rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 4.5%, a decrease from the average 5% over the past 12 months.

Assumptions for various categories of expenses include:

- Labor costs are centrally calculated based on approved positions and historical vacancy factors. One to two step merit increases are assumed for employees who are eligible. Actual merit awards are based on the employee's performance evaluation. No base building wage increase appropriations are built into the departmental budgets as these are subject to negotiations and approval by the Board of Supervisors. As negotiated agreements are completed, cur-

rent budget status will be reviewed and the need for budget adjustments will be determined. No Performance Incentive Program (PIP) appropriations are built into the departmental budgets as this program is currently a time-off award only. A 2% Management Appraisal Program increase is budgeted consistent with labor agreements already approved.

- Retirement costs are expected to remain fairly level. In January 2007 the County issued a short-term (18-month) pension obligation bond and prepaid \$211 million in estimated FY 2007-08 retirement cost. This prepayment results in a gross savings of \$17.7 million resulting from the discount that the Orange County Employees Retirement System offered connected with prepayment.
- Employee health insurance costs are expected to remain fairly level.
- Retiree medical cost for most bargaining units is 3.5% of payroll. This rate reflects the modified plan approved by the Board in the fall of 2006. The modified plan fully funds the annual required contribution and reduced the Retiree Medical Program unfunded liability by \$815 million.
- Inflation on other services and supplies is generally allowed at 3% with higher rates for fuel and medical supplies.

DECEMBER 2006 STRATEGIC FINANCIAL PLAN

The Strategic Financial Plan (SFP) process provides the framework for balancing available resources with operating requirements, implementing new programs and facilities and serves as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the context of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been updated annually to review revenue and expense forecasts. New priorities are identified and considered as part of a comprehensive update of the plan.

The Strategic Financial Plan contains five elements:

- Economic Forecast
- General Purpose Revenue and Fund Balance Available Forecast
- Program Cost Forecast

■ Strategic Priorities

■ General Fund Reserves Policy

In November 2006, the County Executive Officer and department heads met to consider and rank the County's strategic priorities. This resulted in the following top ten priority list:

1. Water Quality and Watershed Protection
2. County Facilities Master Plan
3. Information Technology Strategic Plan Tactical Goals
4. District Attorney High Tech Crime Unit Expansion
5. Tustin Family Campus
6. Musick Facility Expansion
7. Affordable Housing
8. Healthy Eating and Physical Activity Program
9. Sheriff Forensic Science DNA Program
10. Adult Re-entry Program

These strategic priorities were built into the Strategic Financial Plan that included an assumption of a gradual decline and leveling of General Fund Balance Available, modest general purpose revenue growth and continuation of the State's 15 year repayment of past mandated cost claims. The spending side included assumptions of 3% growth in departmental Net County Cost limits, increased capital funding for parks and beaches, a restructured retiree medical program, a modest amount of potential budget augmentations, and \$33.4 million in Net County Cost funding for seven of the top ten strategic priorities. The plan was balanced for the next five years and was approved by the Board on December 12, 2006.

IV. OVERVIEW OF THE FY 2007-08 RECOMMENDED COUNTY BUDGET

BASIS OF BUDGETING

The County's budget and its accounting system are based on the modified accrual system. The fiscal year begins on July 1. Revenues are budgeted as they are expected to be received or as they are applicable to the fiscal year. Consistent with the Governmental Accounting Standards Board (GASB) ruling

33, typically only revenues expected to be received within 60 days of the end of the fiscal year are included. Fund Balance Available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus FBA equals total available financing.

Expenses are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. In each fund, expenses and increases to reserves must be balanced with available financing.

BUDGET DEVELOPMENT

In late December 2006, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the budget development:

Consistency with Strategic Financial Plan and Business Plan Concepts: Base operating budget requests shall be consistent with the priorities and operational plans contained in the December 2006 Strategic Financial Plan and the approved departmental business plans as resources are available. Department heads are responsible for using these planning processes along with program outcome indicators to evaluate existing programs and redirect existing resources as needed for greater efficiency, to reduce cost and minimize the requests for additional resources. A certification regarding the evaluation of existing resources is required as part of the budget request submittal.

Salaries & Employee Benefits: The Salary and Benefits Forecasting System (SBFS) in BRASS (the County's budget system) will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual calendar year 2006 vacancy rates.

Budgeted extra-help positions must comply with the MOU provisions. Those that do not are to be deleted with a corresponding reduction in the extra-help account.

Services & Supplies: Services and supplies shall be budgeted at the same level as actual use during last fiscal year and current year projections to the extent they are necessary to support business plan and Strategic Financial Plan goals.

Fees and Charges for Services: Departments are responsible for identifying total cost for programs with fees and to set fees at full cost recovery for the entire fiscal year. Full cost recovery includes direct and indirect costs, overhead and depreciation for the period during which the fee will be in effect. If fees are set at less than full cost recovery, the reason for subsidy should be given. Fees that are set by State law shall be implemented in accordance with those laws.

Revenue and Grants: Program revenues (e.g. State and Federal programs revenues) are to be used to offset the department's proportional share of operating costs to the full extent of the program regulations. Local matching funds should normally be at the legal minimum so that the General Fund subsidy (backfill) is minimized. Program revenues are to be used for caseload growth.

One-time revenues shall be limited for use on non-recurring items including start-up costs, program or reserve stabilization, capital expenses and early debt retirement.

New revenue sources pending legislation or grant approval should not be included in the base budget request. They should be considered during the quarterly budget report process (i.e. when legislation is passed or grants awarded).

Net County Cost (NCC): NCC limits for the next five years are based on the current budget, adjusted for one-time items and annualization of current year approved ongoing augmentations. The limits allow a 3% growth. There is a continued need to carefully manage the growth in the use of General Purpose Revenues.

Departments shall submit budget requests at or below the NCC limits. The CEO/Budget Office is authorized to automatically reduce, if necessary, the appropriation requests of any budget that exceeds the established NCC limit.

Reserves and Contingencies: The County General Fund currently contains formal reserves, appropriations for contingencies, appropriated reserve-type funds and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredictable, sudden and unavoidable one-time expenditures. Certain departments and non-general funds have other reserves dedicated to specific programs and uses.

Balanced Budget: The General Fund requirements will be balanced to available resources. Budgets for funds outside the General Fund are to be balanced to Available Financing without General Fund subsidy unless previously approved by the Board or CEO. Available Financing shall be determined by an accurate projection on June 30 Fund Balance Available (FBA) and realistic estimates of budget year revenues and any planned decreases to reserves. If available financing exceeds requirements, the difference should be put into reserves for future use.

Augmentations (requests for new or restored resources):

All augmentation requests must include outcome indicators that clearly outline the department's intended outcome(s) resulting from the additional resources. They must be ranked in order of the department's priority for approval. The department head must certify that all potential alternatives for redirecting existing resources have been examined and that there are no lower priority items that can be reduced or eliminated in order to free up existing resources. This certification will be contained in the budget cover letter from the department head to the CEO.

Approved augmentations will undergo an outcome indicator review for two subsequent years as a condition of continued funding. Departments will report on outcome indicator results (to the extent data is available by budget submittal due date) of the performance expectations in a format that will be provided as a separate package. Augmentations will be funded if the CEO and department agree that:

- They meet the performance expectations
- They merit continuation
- They are still relevant to the department's business plan
- Sufficient funding exists

Program Budgets outside the General Fund: It is the department head's responsibility to ensure that the proposed use of program funds is consistent with the available financing and legal restrictions on funds, the department's business plan, the County's strategic priorities and has been coordinated with the appropriate stakeholder groups external to the County.

In context of these policies and guidelines, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Office reviews the requests, meets and discusses the requests with the department and prepares final recommendations for the Board. These recommendations are presented to the public via a budget workshop and then to the Board of Supervisors during public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

Preceding the budget program sections, the following charts and schedules are provided as an overview of the budget:

1. Total County Revenue Budget
2. Total County Financing
3. Total County Revenues by Source
4. Total County Appropriations by Program
5. General Fund Sources & Uses of Funds
6. General Fund Appropriations by Program
7. General Purpose Revenue
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment
11. Total County Budget Comparison by Agency/Department
12. Provision for Reserves Summary
13. Position Summary
14. Summary of Net County Costs
15. County of Orange Organization Chart

HIGHLIGHTS OF THE FY 2007-08 RECOMMENDED BUDGET

Total Budget:

- Total County Budget is \$5.9 billion, an increase of 6.2% from the prior year adopted budget.
- Total budgeted positions are 18,541 in the base budget, an increase of 1.3% from the prior year adopted budget. Approval of recommended augmentations would increase the total position count by 192.

- Total General Fund Budget is \$3.0 billion, an increase of 2.3% from the prior year adopted budget.
- General Purpose Revenues (excluding General Fund Balance Available) are \$592 million, an increase of 1.7% over current year projected General Purpose Revenues.
- General Fund Balance Available (FBA) is projected to be \$100 million by the end of the current year as shown in the following table (**Table B**):

Table B

(Millions)	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Projected
Beginning FBA July 1	\$ 145.3	\$ 166.8	\$ 148.7
Changes to Reserves	18.0	(50.1)	(38.3)
Revenues	2,399.4	2,836.0	2,990.6
Available Financing	2,562.7	2,952.7	3,101.0
Expenditures/Encumbrances	(2,407.6)	(2,816.4)	(3,014.6)
Changes in Encumbrances	11.7	12.4	13.6
Ending FBA June 30	\$ 166.8	\$ 148.7	\$ 100.0

SPECIFIC PROGRAM HIGHLIGHTS:

This section provides highlights of the base budgets and recommended augmentations for the County budget programs and departments.

PUBLIC PROTECTION**District Attorney**

- Various augmentations with 32 positions are recommended to support increasing misdemeanor and felony filings, new gang injunctions and the High Tech Crime Unit.

Public Defender

- The department is providing services for a growing number of felony and homicide cases in Orange County.

Sheriff

- An augmentation includes \$1.5 million in funding for the expansion of the Forensic Science Lab to enhance DNA processing consistent with the Strategic Financial Plan priorities.

COMMUNITY SERVICES**Department of Child Support Services**

- The department's base budget reflects the fifth year of flat funding from the State. As a result, the base budget is balanced by holding additional positions vacant and using \$2.4 million (about 30%) of departmental reserves.

Health Care Agency

- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative approved by the voters in November 2000, total estimated revenue of \$30.9 million will be allocated to the following services:
 - 19% Health care services for seniors and persons with disabilities
 - 23% Emergency room physicians and on-call specialists
 - 12% Tobacco related disease prevention and control
 - 20% Nonprofit community clinics
 - 6% Proportional reimbursement to hospitals for charity care
 - 20% Public safety including a drug/alcohol rehabilitation program at Theo Lacy jail (64 secure beds)

Use of all Measure H funds is monitored for strict adherence to the provision of the initiative. Actual Tobacco Settlement Funds received will be allocated by the above percentages, whether they fall below, meet or exceed budget amounts.

- An augmentation is recommended for three positions and \$500,000 in General Funds to establish the Healthy Eating and Physical Activity Program to help combat the growing obesity problem. This item is consistent with the Strategic Financial Plan priorities.

- Fifteen new positions and partial year General Funds of \$840,000 (\$1.14 million full year) are recommended to establish the Female Inmate Crisis Stabilization Unit as part of the County Correctional System.
- The department was awarded \$16.9 million for each of the next three years as part of SB 1448 (Coverage Initiative) to expand services to Medical Services to Indigents clients.

Social Services Agency

- Ten positions and \$665,000 in general funds are recommended to address the rising caseloads in the Adult Protective Services Unit.
- An augmentation includes \$1.5 million in Federal and County funds and 21 positions for improved services to foster care families and children. This is intended to reduce abuse and maltreatment, improve placement, facilitate reunification and improve the quality of care.

Housing & Community Services (including the former Community Services Agency)

- An augmentation includes \$200,000 to support the increasing operations and volume of calls for the 211 system, a comprehensive information and referral system that links Orange County residents to community health and human services and support.

INFRASTRUCTURE AND ENVIRONMENTAL RESOURCES

Resources & Development Management Department (RDMD)

- Augmentations include an additional \$1.1 million in General Funds and two positions for watershed protection and water quality operations and projects. The cost of complying with the new National Pollutant Discharge Elimination System (NPDES) regulations, are currently unknown and not included in the base budget.
- Augmentations include three positions for the Capital Improvement Plan and capital projects and \$250,000 in General Funds for the Housing Element Update of the County's General Plan.
- The base Road Fund budget includes \$8 million in Proposition 42 funds and 19 million in proposition 1B for road maintenance and construction projects to accommodate increased project workload.

- The base Flood Control District includes \$10 million for the initial relocation cost of moving the Katella Yard Operation to its new location in the City of Orange and \$50 million for Prado Dam land acquisition or structural improvements as an alternative. The FY 07-08 budget also includes \$15.5 million in reimbursement of subvention funds from the State for Flood ACO Fund 404 Santa Ana River Mainstem Project. As of June 30, 2007, the amount of unpaid claims to the County is anticipated to be \$65.3 million.

- The base budget for Harbors, Beaches & Parks includes funding for the development and implementation of the HBP strategic plan and is now relieved of the cost of Harbor Patrol charges from Sheriff Department. The Sheriff will receive General Funds to replace the discontinued charges.

Dana Point Harbor Department

- The base budget includes \$1.5 million Waterside Marina Revitalization funded by Department of Boating and Waterways (DBW) loan, \$2.5 million for dredging work and \$58.9 million for the harbor revitalization project funded partly by a planned bond issue of 42 million.

Orange County Public Library

- The base budget includes \$1.5 million in General Funds for restroom repair and Americans with Disabilities Act projects at various library facilities throughout the County.
- An augmentation recommends 12 new positions for the Wheeler Branch Library scheduled to open in early 2008.

Integrated Waste Management Department (IWMD)

- This department has two major new capital projects: preparation of waste disposal cells at the Bowerman Landfill (\$32.5 million) and Prima Deshecha Landfill (\$11.5 million). IWMD reserves would be reduced by \$41 million to fund these projects.
- The base budget includes \$5.1 million in self haul tonnage revenue.
- The base budget also includes funding for fees related to landfill expansion, headquarter relocation costs, purchase of environmental mitigation resources, and higher heavy duty equipment maintenance costs.

- IWMD continues to support the bankruptcy recovery debt obligations in the amount of \$13.0 million.

John Wayne Airport

- Four surveyor positions will be transferred from RDMD to the Airport for more direct control over the project assignments.
- Capital improvements total \$98 million for FY 2007-08 and include a utility co-generation plant, southwest parking structure, terminal building gate expansion and baggage handling equipment upgrade.

GENERAL GOVERNMENT

Auditor-Controller

- Two positions would be transferred from Internal Audit to perform quarterly and annual audits of the County Treasury and the biennial audit of Probation Department.

Registrar of Voters

- This budget defers funding of \$4.5 million for the February 2008 Presidential Primary pending inclusion of this item in the State budget.

Clerk-Recorder

- Funding is recommended for a new North County service office (\$1.2 million).
- Funding is also recommended to enhance the County Archives program (\$1.2 million).

Countywide Accounting & Payroll System (CAPS)

- This budget is recommended to increase from \$15.4 million to \$21.2 million for operations of the existing system and implementation of the upgrade. The increase is funded with a planned use of \$3.85 million from reserves established specifically for the upgrade project.
- This budget would also provide the funding for five new positions in the Auditor-Controller's office and three new positions in CEO/Purchasing in support of the CAPS upgrade project.

Treasurer Tax-Collector

- Base budget is below the Net County Cost limit by \$1.7 million due to cost reductions and revenue enhancements. The base budget includes transfer of \$.7 million Delinquent Property Tax fee revenue from General Fund to Treasurer's budget.

CAPITAL IMPROVEMENTS

Capital Projects

- The base budget includes \$6.4 million for maintenance and repair plan projects for various County facilities, \$7.6 million in new departmental capital projects, re-budgeted projects of \$22.3 million and \$19.1 million for the Central Utilities Facility Cogeneration project.
- An augmentation includes \$4 million for County's Facility Master Plan projects.

Data Systems Development Projects

- The base budget includes \$4.7 million (\$3.40 million from reserves) for the re-write of the Assessment Tax System. Augmentation funding of an additional \$4.2 million (also from reserves) is recommended for phases 3 and 4.

DEBT

The Recommended Budget funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency. Although the County's former Pension Obligation Bonds were economically defeased, this budget reflects the payments made by the trustee from escrow. This program also includes the debt associated with the County's Teeter program. Debt related to specific operations such as John Wayne Airport and Integrated Waste Management is included in Program III where the operational budgets for those operations are also found. The County currently has no plans for temporary cash flow borrowing because there are sufficient General Fund cash balances and reserves. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.

V. SUMMARY

This budget serves as a realistic plan of resources available to carry out the County's core businesses and priorities. It is consistent with the County's mission including the Strategic Financial Plan and departmental business plans. It follows the CEO budget policy guidelines, meets some of the departmental augmentation requests, incorporates impacts of the January State budget proposals, addresses important capital needs and provides adequate reserves.

VI. NEXT STEPS

A public workshop on this Recommended Budget is planned for May 24, 2007. The Board of Supervisors will hold public hearings regarding this budget starting June 12, 2007. Results of those hearings will be incorporated into this budget and will be returned to the Board for adoption on June 26, 2007. The new fiscal year begins on July 1, 2007. During the fiscal year, the CEO will present the Board with quarterly budget status reports and recommend appropriate changes as needed, including changes which may arise from final County fund balances, final State budget impacts, new legislation, new grants awards, and other circumstances or conditions that may affect the budget.

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You may also review the budget document on-line at:

- <http://www.oc.ca.gov/finance/finance.asp>